State of Colorado

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Honorable Bill Owens
Governor of Colorado
136 State Capitol Building
Denver, Colorado 80203

Honorable Representative Bernie Buescher
Chair, Joint Budget Committee
Colorado General Assembly
200 East 14th Avenue
Denver, Colorado 80203

Dear Governor Owens and Representative Buescher:

In accordance with the Total Compensation Reform Act, the enclosed 2007-08 Annual Compensation Report indicates $76.1 million is needed to reach prevailing market compensation for employee[1] total compensation for next fiscal year as shown in the following table. However, our strategic plan would indicate a need for an additional $62.8 million to keep salaries competitive and to continue to incrementally increase employer contributions to group benefits toward prevailing market practices so that we do not risk falling irreparably behind the market.

FY 2007-08 TOTAL COMPENSATION RECOMMENDATIONS AND ESTIMATED COST
(Including associated PERA and Medicare costs)

Type of Compensation	Prevailing Market Compensation	Compensation at 85% HDL
Occupational Salary Adjustments	$52,576,492	$52,576,492
HDL Contributions	$23,548,910	$10,218,868
Total Compensation Package New Dollars	$76,125,401	$62,795,360

Our recommendation indicates the need for a statewide average increase of 4.42%, which includes pay structure and salary adjustments for the occupational groups, performance pay, system maintenance studies, individual class adjustments, and any adjustment to range minimums. These salary adjustments would maintain the State's competitive pay position with

[1] The estimated cost is for OSPB agencies, which excludes Higher Education Institutions, Department of Law, Treasury, Department of State, Judicial, and General Assembly.

the market and assure employees are being paid comparably.[2] The specific salary structure adjustment indicated for each occupational group is shown in the table below.

	8/1/2007 Salary Adjustment Findings	Total # Employees
ENFORCEMENT AND PROTECTIVE SERVICES	3.2%	5200
TROOPERS*	3.5%	682
FINANCIAL SERVICES	2.5%	1766
HEALTH CARE SERVICES	3.9%	3484
LABOR/TRADES/CRAFTS	2.2%	5242
ADMINISTRATIVE SUPPORT AND RELATED	2.5%	4643
PROFESSIONAL SERVICES	3.6%	8046
PHYSICAL SCIENCES AND ENGINEERING	3.4%	1917
TEACHER **	3.6%	241

* Per C.R.S. 24-50-104(1)(a)(III)(A), Trooper's market (top three highest-paid large jurisdictions) shows a 3.5% structure movement and a 6.2% actual pay difference between the State and this market. The latter would be used for Trooper's salary survey adjustment if the recommendation were approved.

**Due to the lack of survey data for the Teacher group, the Professional Services occupational group increase is used.

The market data indicates allocating a statewide average of 3.5% of total payroll for salary structure adjustments. In other words, while individual state employees will not necessarily receive a 3.5% adjustment, the combination of all of the occupational group salary structure adjustments is 3.5%. If I applied the same practice as used in the past several years, only a small fraction is left for performance pay given the unique way the State implements these adjustments. Private employers provide a mechanism to move salaries through pay ranges, typically based on performance. Prior to the transition from the former anniversary (longevity) system to the policy of rewarding for performance, the State historically budgeted approximately 2.2% of payroll for the mechanism to move salaries through the pay ranges, which was in addition to the market salary adjustments. It also met the legislative intent for cost neutral implementation of performance pay. Performance pay has only been partially funded twice over the past five years: 0.8% for FY 2002-03, 0% for FY 2003-04, 1% for FY 2004-05, 0% for FY 2005-06, and 0% for FY 2006-07. Pursuant to the Department's five-year strategic plan, my goal is to effectuate the statutory policy by restoring the mechanism to move salaries through the ranges based on performance. However, I also realize it is impractical to expect restoration of the historical shortfall of 9.2% (11% less the funded 1.8%) all at once. Accordingly, I am requesting an additional 0.92% above the salary structure adjustment for performance pay as a means of moving employees through their pay ranges. It is imperative that this pay for performance program be funded to restore its viability and to retain and motivate the workforce.

Included in the market data indicating a 3.5% salary adjustment, the Department conducted a detailed analysis of individual class pay ranges versus the labor market pay ranges because individual class pay ranges may move differently than the overall occupational group movement. We found that several need adjustment in order to be competitive with the market. These separate adjustments affect 289 employees with 10 classes moving upwards and one downward. Those employees' pay impacted by the one downward class will be in saved pay status for up to three years. Three classes in the Air Traffic Controller series are also being recommended for

[2] Employees rated "Needs Improvement" will be excluded from salary adjustments and performance pay.

pay grade increases as the result of a separate study on their pay in comparison to the prevailing market.

As a reminder, employees will not see the full amount of these increases due to the passage of SB06-235 requiring 0.5% be used to fund the Supplemental Amortization Equalization Disbursement (SAED) to PERA, effective January 1, 2008.

Turning to the State's contribution to group benefit plans, an additional $10,218,868 is needed for the next plan year to continue bringing the employer's contribution closer to market. These new dollars will help address the critical issue of health care premium increases and bring our health care contributions closer to prevailing practice. For group insurance contributions, the State continues to be below the market. One of the goals in our five-year strategic plan is to reach prevailing contribution levels and to allow state employees the flexibility of choosing the compensation package that best meets their needs. The recommended increase will allow the State to close this critical gap by building on last year's progress and take the State to an average of 85% of the prevailing market employer contribution levels.

Total HLD Employer Contribution Dollars by Enrollment Tier			
	State FY 06-07 Contribution	Market for FY 07-08	Recommended 85% of Market
Employee	$271.04	$363.88	$310.51
Employee + Spouse	$448.58	$616.15	$524.93
Employee + Child(ren)	$421.24	$563.70	$480.35
Family	$616.86	$835.23	$711.15

Due to budgetary constraints, my recommendation results in a total additional cost of $62.8 million for FY 2007-08 (including 85% of prevailing market employer contribution to benefits). It is critical that the State meet its statutory obligation to offer competitive total compensation to its employees. Based on the current fiscal constraints, this recommendation for the State's appropriated general government positions maximizes the State's investment in its employees and helps us meet our obligation. Please recall that this year, as well as every year, an updated recommendation will be provided in December that incorporates additional survey data and considers the most current statewide budgetary needs and the updated revenue forecasts.

Please visit the following site for FY 2007-08 annual compensation survey findings **http://www.colorado.gov/dpa/dhr/comp/pay.htm**.

Sincerely,

Jeffrey M. Wells
Executive Director

cc: State Legislators, Cabinet Members and Higher Education Presidents.